

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

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Docket No. R2013-1

**REPLY OF
ALLIANCE OF NONPROFIT MAILERS
TO USPS RESPONSE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5, QUESTION 2
(November 8, 2013)**

The Alliance of Nonprofit Mailers ("ANM") respectfully submits this reply to the November 6 response of the Postal Service to Question 2 of Chairman's Information Request No. 5. The question and response concern the proper treatment of promotional discounts for Standard Mail under 39 U.S.C. § 3626(a)(6), which requires that Standard Mail rates must be set so that the "estimated average revenue per piece to be received by the Postal Service from each subclass of [Nonprofit Standard] mail . . . shall be equal, as nearly as practicable, to 60 percent of the estimated average revenue per piece to be received from the most closely corresponding regular-rate subclass of mail." The Postal Service's response confirms that, in its initial filing, promotional discounts were not deducted from total commercial and nonprofit revenue when computing average revenue per piece to evaluate compliance with 39 U.S.C. § 3626(a)(6). The Postal Service response, however, does not appear to take a position on whether its initial approach was correct.

The law is unambiguous. The Postal Service's initial approach is incorrect. Section 3626(a)(6) defines the 60 percent ratio in terms of "estimated average revenue

per piece” for each subclass of Nonprofit Standard mail and each corresponding subclass of commercial Standard mail. Promotional discounts reduce total revenue, and therefore average revenue per piece. Hence, the revenue forgone as a result of promotional discounts must be subtracted from the gross revenue of both nonprofit and commercial Standard Mail when setting nonprofit rates to comply with the 60 percent ratio.

It is no answer that the revenue effect of promotional discounts may be more or less significant for commercial mail than for nonprofit mail. Many of the determinants of average revenue per piece differ for the two kinds of Standard Mail: that is why the average rate discount received by nonprofit Standard mail, if one controls for differences in average weight per piece, degree of presortation, depth of destination entry, and other billing determinants, is well below 40 percent.

In this case, the Postal Service’s failure to adjust Standard Mail revenue for promotional discounts skews the nonprofit ratio by less than one-tenth of a percent. It is possible, however, that errors of this kind could have a much larger effect in future cases. Accordingly, the Commission should make clear that, in future cases, the Postal Service should subtract promotional revenue foregone from gross revenue when computing average revenue per piece under 39 U.S.C. § 3626(a)(6).

Respectfully submitted,

David M. Levy
VENABLE LLP
575 Seventh Street, N.W.
Washington DC 20004
(202) 344-4732

Counsel for Alliance of Nonprofit Mailers

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